



# Washington State Auditor's Office

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## Financial Statements Audit Report

# Central Washington Public Utilities Unified Insurance Program Trust

Grant County

For the period August 1, 2014 through December 31, 2014

Published June 29, 2015

Report No. 1014507





## Washington State Auditor's Office

June 29, 2015

Board of Trustees  
Central Washington Public Utilities Unified Insurance Program Trust  
Ephrata, Washington

### Report on Financial Statements

Please find attached our report on the Central Washington Public Utilities Unified Insurance Program Trust's financial statements.

We are issuing this report in order to provide information on the Trust's financial condition.

Sincerely,

JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR  
OLYMPIA, WA

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

**Central Washington Public Utilities Unified Insurance Program Trust  
Grant County  
August 1, 2014 through December 31, 2014**

Board of Trustees

Central Washington Public Utilities Unified Insurance Program Trust  
Kennewick, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Central Washington Public Utilities Unified Insurance Program Trust, Grant County, Washington, as of and for the five month period ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements, and have issued our report thereon dated June 23, 2015. As discussed in Note 1 to the financial statements, during the year ended December 31, 2014, the Trust elected to change its fiscal year end from July 31 to December 31. Due to this change in fiscal year end, the Trust's financial results present a five month period ending December 31, 2014.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit of the financial statements, we considered the Trust's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control. Accordingly, we do not express an opinion on the effectiveness of the Trust's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Trust's financial statements will not be prevented,

or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Trust's financial statements are free from material misstatement, we performed tests of the Trust's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Trust's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Trust's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

June 23, 2015

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Central Washington Public Utilities Unified Insurance Program Trust Grant County August 1, 2014 through December 31, 2014**

Board of Trustees  
Central Washington Public Utilities Unified Insurance Program Trust  
Kennewick, Washington

### **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of the Central Washington Public Utilities Unified Insurance Program Trust, Grant County, Washington, as of and for the five month period ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements as listed on page 9.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

considers internal control relevant to the Trust's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Central Washington Public Utilities Unified Insurance Program Trust, as of December 31, 2014, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Matters of Emphasis Regarding Change in Fiscal Year End**

As discussed in Note 1 to the financial statements, during the year ended December 31, 2014, the Trust elected to change its fiscal year end from July 31 to December 31. Due to this change in fiscal year end, the Trust's financial results present a five month period ending December 31, 2014. Our opinion is not modified with respect to this matter.

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 12 and risk pools information on pages 25 through 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the

basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Supplementary and Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Trust's basic financial statements as a whole. The List of Participating Members and DES Schedule of Expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2015 on our consideration of the Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Trust's internal control over financial reporting and compliance.



JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

June 23, 2015



## **FINANCIAL SECTION**

**Central Washington Public Utilities Unified Insurance Program Trust  
Grant County  
August 1, 2014 through December 31, 2014**

### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2014

### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2014

Statement of Revenues, Expenses and Changes in Fund Net Position – 2014

Statement of Cash Flows – 2014

Notes to the Financial Statements – 2014

### **REQUIRED SUPPLEMENTARY INFORMATION**

Reconciliation of Claims Liabilities by Type of Contract – 2014

Ten-Year Claims Development Information – 2014

### **OTHER INFORMATION**

List of Participating Members – 2014

DES Schedule of Expenses – 2014

# **CENTRAL WASHINGTON PUBLIC UTILITIES UNIFIED INSURANCE PROGRAM TRUST**

Management's Discussion and Analysis  
August 1, 2014 through December 31, 2014

The following management's discussion and analysis presents an overview and analysis of the financial activities of the Central Washington Public Utilities Unified Insurance Program Trust (Trust) for the five months (short year) ended December 31, 2014, with additional comparative data for the fiscal year ended July 31, 2014. Information within this section should be used in conjunction with the accompanying financial statements and related notes.

## **Change in Year End**

On February 11, 2015, the members of the Trust approved a change in the fiscal year end, July 31 to a calendar year, December 31. Approval was also granted by the Washington State Department of Enterprise Services on February 26, 2015. As a result of this change, the Trust has a short year for five months from August 1, 2014 to December 31, 2014. This change was implemented to follow the change in the premium year to a calendar year. Comparative data is five months compared to the prior fiscal year of twelve months.

## **Overview of the Trust and the Financial Statements**

The members of the Trust, as listed in the notes to the financial statements, pay into the Trust a predetermined premium for medical and dental insurance which is established by the Broker and approved by the Trustees at the beginning of each fiscal year.

In accordance with requirements set forth by the Governmental Accounting Standards Board, the Trust financial statements employ the accrual basis of accounting in recognizing increases and decreases in economic resources. Accrual accounting recognizes all revenues and expenses during the year, regardless of when cash is received or paid.

The financial statements of the Trust have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to proprietary funds of government units.

The basic financial statements, presented for the five months ended December 31, 2014, are comprised of:

- *Statement of Net Position:* The Trust presents its statement of position using the balance sheet format. The Statement of Net Position reflects the assets, liabilities and net position of the Trust at year-end.
- *Statement of Revenues, Expenses, and Changes in Fund Net Position:* This statement reflects the transactions and events that have increased or decreased the Trust's total economic resources during the period. Revenues and expenses are classified as operating or non-operating based on the nature of the transaction.
- *Statement of Cash Flows:* The Statement of Cash Flows reflects the sources and uses of cash separated into two categories of activities: operating and investing.

## **Condensed Comparative Financial Information**

Provided below is a two year comparison of key financial information:

### **Statement of Net Position Information**

	<b>5 Months</b>	<b>12 Months</b>	<b>Increase</b>	
	<b>12/31/2014</b>	<b>7/31/2014</b>	<b>(Decrease)</b>	<b>% Change</b>
Current Assets	\$ 3,743,333	\$ 2,495,558	\$ 1,247,775	50.00%
Investments	8,192,858	9,556,559	(1,363,701)	-14.27%
Current Liabilities	3,447,159	3,590,017	(142,858)	-3.98%
Unrestricted Net Position	<u>\$ 8,489,032</u>	<u>\$ 8,462,100</u>	<u>\$ 26,932</u>	<u>0.32%</u>

### **Statement of Revenues, Expenses, and Changes in Fund Net Position**

	<b>5 Months</b>	<b>12 Months</b>	<b>Increase</b>	
	<b>12/31/2014</b>	<b>7/31/2014</b>	<b>(Decrease)</b>	<b>% Change</b>
Operating Revenues	\$ 8,345,276	\$ 20,020,779	\$ (11,675,503)	-58.32%
Nonoperating Revenues	40,995	73,678	(32,683)	-44.36%
Total Revenues	<u>8,386,271</u>	<u>20,094,457</u>	<u>(11,708,186)</u>	<u>-58.27%</u>
Operating Expenses				
Claims and Administrative Fees	8,077,625	18,129,291	(10,051,666)	-55.44%
Other Contracts	12,809	17,957	(5,148)	-28.67%
Other Expenses	268,905	186,882	82,023	43.89%
Total Operating Expenses	<u>8,359,339</u>	<u>18,334,130</u>	<u>(9,974,791)</u>	<u>-54.41%</u>
Change in Net Position	26,932	1,760,327	(1,733,395)	-98.47%
Beginning Net Position	8,462,100	6,701,773	1,760,327	26.27%
Ending Net Position	<u>\$ 8,489,032</u>	<u>\$ 8,462,100</u>	<u>\$ 26,932</u>	<u>0.32%</u>

## **Financial Analysis**

### **Revenues**

Operating revenues decreased by \$11,675,503 from the five months ended December 31, 2014 to the twelve months ended July 31, 2014 primarily attributable to the decrease in the number of months for the current year end.

### **Expenses**

Operating expenses decreased by \$9,974,791 from the five months ended December 31, 2014 to the twelve months ended July 31, 2014 primarily attributable to the decrease in the number of months for the current year end.

### **Summary of Financial Position**

The overall financial position of the Trust has improved during the five months ended December 31, 2014 with an increase in net assets of \$26,932 or .32% of total net position. There are no material restrictions, commitments or other limitations that affect availability of Trust resources for future use.

**CENTRAL WASHINGTON PUBLIC UTILITIES  
UNIFIED INSURANCE PROGRAM TRUST**

STATEMENT OF NET POSITION  
As of December 31, 2014

	<u>2014</u>
<u>ASSETS</u>	
Current Assets:	
Cash and Cash Equivalents (Notes 1.C and 2)	\$ 1,257,849
Investments (Notes 1.E and 2)	2,457,471
Accrued Interest Receivable	26,596
Prepaid Insurance	<u>1,417</u>
Total Current Assets	3,743,333
Non Current Assets:	
Investments (Notes 1.E and 2)	<u>8,192,858</u>
Total Assets	<u>\$ 11,936,191</u>
 <u>LIABILITIES AND NET POSITION</u>	
Current Liabilities:	
Accrued Administrative Expenses	\$ 189,536
Accrued Claims - Reported Medical	41,748
Accrued Claims - IBNR (Note 1.F)	3,090,000
Prepaid Member Contributions	<u>125,875</u>
Total Current Liabilities	3,447,159
 Total Liabilities	<u>\$ 3,447,159</u>
Net Position:	
Unrestricted	<u>8,489,032</u>
 TOTAL NET POSITION	<u><u>\$ 8,489,032</u></u>

*The accompanying notes are an integral part of the financial statements*

**CENTRAL WASHINGTON PUBLIC UTILITIES  
UNIFIED INSURANCE PROGRAM TRUST**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION  
For The Five Months Ended December 31, 2014

	<b>5 Months Ended Dec 31 2014</b>
OPERATING REVENUES:	
Premiums Received from Members	\$ 8,265,439
Claims and Administrative Fee Refunds	79,837
Total Operating Revenues	<u>8,345,276</u>
 OPERATING EXPENSES:	
Medical Claims Paid	4,245,809
Medical Claims - IBNR (Note 1.F)	2,770,000
Dental Claims Paid	308,040
Dental Claims - IBNR (Note 1.F)	320,000
Administrative Fees	433,776
Other Insurance Premiums	12,809
Other Operating Expenses	268,905
Total Operating Expenses	<u>8,359,339</u>
 OPERATING LOSS	 (14,063)
 NONOPERATING REVENUES:	
Investment Income (net)	40,995
Total Nonoperating Revenues	<u>40,995</u>
 CHANGE IN NET POSITION	 26,932
 TOTAL NET POSITION, August 1	 <u>8,462,100</u>
 TOTAL NET POSITION, December 31	 <u><u>\$ 8,489,032</u></u>

*The accompanying notes are an integral part of the financial statements*

# CENTRAL WASHINGTON PUBLIC UTILITIES UNIFIED INSURANCE PROGRAM TRUST

## STATEMENT OF CASH FLOWS For The Five Months Ended December 31, 2014

	<b>5 Months Ended Dec 31 2014</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash Received from Members	\$ 8,267,638
Cash Payments to Service Providers	(8,416,952)
Net Cash Used by Operating Activities	<u>(149,314)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Proceeds from Maturities of Investments	250,000
Purchases of Investments (including Premium Paid of \$5,882)	(505,882)
Interest Received	59,627
Net Cash Used by Investing Activities	<u>(196,255)</u>
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(345,569)</b>
<b>CASH AND CASH EQUIVALENTS, August 1</b>	<b><u>1,603,418</u></b>
<b>CASH AND CASH EQUIVALENTS, December 31</b>	<b><u><u>\$ 1,257,849</u></u></b>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:</b>	
Operating Loss	\$ (14,063)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
(Increase)Decrease in Accounts Receivable	2,461
(Increase)Decrease in Prepaid Insurance	3,544
(Increase) Decrease in Other Prepaid Fees	1,602
Increase (Decrease) in Accrued Administrative Expenses	183,035
Increase (Decrease) in Accrued Claims - Reported Medical	(178,641)
Increase(Decrease) in Accrued Claims - Reported Dental	(146,990)
Increase (Decrease) in Prepaid Members Contributions	<u>(262)</u>
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b><u><u>\$ (149,314)</u></u></b>
<b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:</b>	
Amortization and Change in Accrued Interest	<u><u>\$ 18,632</u></u>

*The accompanying notes are an integral part of the financial statements*

# **CENTRAL WASHINGTON PUBLIC UTILITIES UNIFIED INSURANCE PROGRAM TRUST**

Notes to the Financial Statements  
December 31, 2014

## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Central Washington Public Utilities Unified Insurance Program Trust (Trust) conform to accounting principles generally accepted in the United States of America applicable to proprietary funds of governmental units as promulgated by the Governmental Accounting Standards Board. The significant accounting policies are described below.

### **A. Reporting Entity**

The Trust was organized as of October 1, 1982, pursuant to the provisions of the Revised Code of Washington, Chapter 54, and interlocal governmental agreements. The Trust's general objectives are to provide a central fund for the collection and disbursement of employee benefit premiums and claims involving medical, dental, life, accidental death and dismemberment (AD&D), and long-term disability (LTD) coverage.

Members of the Trust are the Public Utility District (PUD) No. 1 of Benton County, PUD No. 1 of Douglas County, PUD No. 1 of Ferry County, PUD No. 1 of Franklin County, PUD No. 2 of Grant County, PUD No. 1 of Okanogan County and PUD No. 1 of Pend Oreille County. The Trust is administered by a Board of Trustees comprised of an appointed Trustee and alternate Trustee from each of the seven member Districts (Member). The Trust has an agreement with Wells Fargo Bank to serve as custodian and investment manager of the Trust's assets. The Trustees are authorized to negotiate for, obtain, and maintain insurance policies to provide benefits which include, but are not limited to, medical, dental, life, AD&D and LTD insurance.

Effective August 1, 2002, the Trust established a self-insured medical plan which has been approved by the Washington State Office of Risk Management (currently the Washington State Department of Enterprise Services). Premera Blue Cross and the Trust have signed a Cost Plus Agreement for the self-insured medical, prescription and vision services. The Trust contracted with Washington Dental Services (WDS) to provide dental insurance until January 1, 2009 when the Trust became self-insured for dental. Effective January 1, 2009, WDS and the Trust have signed a Cost Plus Agreement for the self-insured dental. Effective August 1, 2009, the Trust contracted with Unum to provide life insurance, AD&D insurance, and LTD insurance. Effective August 1, 2011, the Trust voted to have these costs paid directly by the individual PUD's to Unum.



## **A. Reporting Entity (continued)**

Each participating Member is responsible for the collection and payment of contributions required for employees who are covered under the Trust program. All premiums for medical and dental are sent by each Member to the Trust. The Trust pays medical, prescription, and vision claims to Premiera based on the Cost Plus Agreement. The Trust pays WDS dental claims based on the Cost Plus Agreement.

A Member may withdraw from and terminate its participation in the Trust and its obligation to make contributions to the Trust fund provided that notice of intent to withdraw by such Member is given, in writing, to the Chair on or before the beginning of the Trust fiscal year and will become effective at the end of the fiscal year succeeding such notice. A withdrawn Member shall have no claim to, nor any right, title or interest in, any money or assets of or attributable to the Trust. Trust insurance policy contractual provisions apply to all claims by employees of the withdrawing Member incurred before the date of withdrawal.

On February 11, 2015, the members of the Trust approved a change in the fiscal year end, July 31 to a calendar year, December 31. Approval was also granted by the Washington State Department of Enterprise Services on February 26, 2015. As a result of this change, the Trust has a short year for five months from August 1, 2014 to December 31, 2014. This change was implemented to follow the change in the premium year to a calendar year. Comparative data is five months compared to the prior fiscal year of twelve months.

## **B. Basis of Accounting, and Presentation**

The accounting records of the Trust are maintained in accordance with methods prescribed by the State Auditor's Office under the authority of Chapter 43.09 RCW. When applicable, the Trust also follows the accounting standards established by Statement No. 10 of the Governmental Accounting Standards Board (GASB), *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, as amended by GASB Statement 30, *Risk Financing Omnibus*, GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Funds*.

The Trust uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred.

The principal operating revenues of the Trust are Member contributions. Nonoperating revenues represent income from investments.

Operating expenses include medical and dental claims and administrative fees, bank fees, broker fees, accounting fees, medical insurance premiums, and self-insurance program fees.

### **C. Cash and Cash Equivalents**

For purposes of the Statement of Cash Flows, the Trust considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

### **D. Capital Assets**

The Trust owns no capital assets.

### **E. Investments**

See Note 2B.

### **F. Unpaid Claims Liabilities**

The Trust establishes claims liabilities based on estimates of the ultimate cost of claims, including future claim adjustment expenses, that have been reported but not settled, and claims that have been incurred but not reported (IBNR). The liability for IBNR is based on 8 weeks of average medical and prescription claims, and 8 weeks of average dental claims.

Actual claims costs depend on complex factors such as inflation, plan utilization by members, medical trend, changes in doctrines of legal liability, and damage awards. Therefore the process used in computing claims liabilities does not necessarily result in an exact amount, particularly for coverage such as general liability.

Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

### **G. Trust Premiums**

Trust premiums are set annually and are effective January 1 (previously August 1) of each plan year, beginning with the 2015 plan year. Premiums include medical, dental and vision coverage. Trust premiums are paid monthly by each Member based upon the number of eligible employees and the contract year's premium. In addition, eligible retired employees are offered medical and dental coverage through the Trust. Participating Members manage the collection of premiums from retired employees and make remittance to the Trust.

## **H. Unpaid Claims**

Claims are charged to income as incurred. Claims reserves represent the accumulation of estimates for reported, unpaid claims, plus a provision for claims IBNR. Claims reserves are recomputed looking at past average monthly claims. These estimates are reviewed and updated on an annual basis and any resulting adjustments are reflected in current earnings.

## **I. Trust Held Reserves**

The Trust adopted a financial reserve policy in April 2011 that complies with guidelines for self-insured employee health benefit programs issued by the Washington State Department of Enterprise Services. Under the policy, the Trust maintains reserves in two accounts, the IBNR Reserve and the Contingency Reserve. The IBNR Reserve is intended to fully fund the IBNR liability. The Contingency Reserve holds the remainder of the Trust funds with a targeted balance equivalent to 12 weeks of estimated medical claims and 8 weeks of estimated dental claims based on the average monthly medical claims over the last fiscal year. As of December 31, 2014, the Contingency Reserve exceeded the target reserve levels by \$4,014,073 (89.6.0%) and the IBNR Reserve was below target levels by (\$6,459) (-.21%), netting 52.9% above target levels. Targeted reserve levels are revised annually in accordance with the financial reserve policy.

The Trust does not show a reserve for unallocated loss adjustment expenses, as an actuary or actuarial method is not used to calculate IBNR. The Trust has chosen to follow a non-actuarial method by using estimated monthly expenses multiplied by the reserve months by benefit to meet applicable requirements.

## **J. Stop Loss Insurance**

The Trust purchases stop loss coverage for medical, prescriptions and vision coverage to reduce its exposure to large losses on all types of insured events. Stop loss insurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Trust as direct insurer of the risks reinsured. The Trust does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers. The individual and aggregate stop losses are negotiated based on the size of the group. The aggregate is recalculated each month based on the group census as of the first of each month. The minimum annual aggregate deductible is the greater of the Estimated Attachment Point or 95% of the first monthly aggregate deductible times 12 months. The 95% of the first monthly aggregate has been calculated for 5 months for the five months ended December 31, 2014.

## **J. Stop Loss Insurance (continued)**

The following shows the stop loss policy:

<b>Policy Dates</b>	<b>Insurance Company</b>	<b>Type of Coverage</b>	<b>Estimated Attachment Point</b>	<b>95% of First Monthly Aggregate x 5 months</b>
8/1/14 – 12/31/14	LifeWise Assurance Co	Group Excess Loss, Medical, Prescription, Vision	\$8,576,789	\$8,712,603

Individual Stop Loss Deductible                      \$250,000  
Aggregate Stop Loss Deductible                      125% of expected claims

Premera prefunds amounts exceeding the stop loss deductible, and advance funding from LifeWise is provided directly to Premera. The amount of Advanced Funded Stop Loss from Lifewise amounted to \$0 for the five months ended December 31, 2014.

## **K. Exempt from Federal and State Taxes**

Pursuant to revenue ruling number 90-74, income of Municipal Risk Pools is excluded from gross income under IRC Section 115(1).

Chapter 48.62 RCW exempts the Trust from insurance premium taxes, and business and occupation taxes imposed pursuant to Chapter 82.04 RCW.

## **NOTE 2 – DEPOSITS AND INVESTMENTS**

### **A. Deposits**

The Trust deposits were held in a money market account under an Investment Manager and Custodian Agreement with a major national bank as of December 31, 2014. The Trust deposits are entirely covered by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

Under state law, public funds may only be deposited with institutions that are approved by the Washington PDPC. Public depositaries in turn are required to report public funds held to the PDPC and abide by requirements set forth in state law. Under the PDPC, public deposits are entirely insured by collateral held in a multiple financial institution collateral pool administered by the PDPC. Public depositaries may be assessed on a prorated basis if the pool's collateral is insufficient to cover a loss. All amounts held in the Trust at December 31, 2014 have been reported to the PDPC.

## **B. Investments**

Investments are recorded at amortized cost in the financial statements. The following chart presents the investments at their face value and fair market value.

*Interest rate risk:* In accordance with its investment policy, the Trust manages its exposure to declines in fair values by matching investment maturities to meet anticipated cash flow requirements. The policy does not formally limit investment maturities.

*Credit risk:* The Trust's investment policy conforms with State law which restricts investment of public funds to debt securities of the U.S. Treasury, U.S. Government agencies, and certain other U.S. Government sponsored corporations, certificates of deposit and other evidences of deposit at financial institutions qualified by the Washington Public Deposit Protection Commission (PDPC), and other investments allowed by Chapter 39.59 RCW.

*Concentration of credit risk:* The Trust's investment makeup at December 31, 2014 conformed with state law related to investment of public funds, as all investments were restricted to debt securities and obligations of the U.S. Treasury.

*Custodial credit risk:* This is the risk that in event of a failure of the counterparty to an investment transaction the Trust would not be able to recover the value of the investment or collateral securities. Of the Trust's total position of \$10,651,462 in debt securities and obligations of the U.S. Treasury, zero is exposed to custodial credit risk because the investments are held at the Federal Reserve.

**B. Investments (continued)**

As of December 31, 2014, the Trust had the following investments:

<i><b>Investments</b></i>	<i><b>Maturities</b></i>	<i><b>Face Values December 31, 2014</b></i>	<i><b>Fair Values December 31, 2014</b></i>
Federal Natl Mortgage Assn	03/16/15	\$ 100,000	\$ 100,044
Federal Natl Mortgage Assn	03/16/15	500,000	500,220
Federal Home LN BK	08/28/15	250,000	250,218
Federal Home LN MTG Corp	09/04/15	500,000	500,655
Federal Home LN MTG Corp	09/10/15	500,000	505,125
Federal Home LN MTG Corp	09/10/15	500,000	505,125
Federal Natl Mortgage Assn	10/26/15	100,000	101,138
Federal Home LN MTG Corp	05/13/16	200,000	200,070
Federal Home LN MTG Corp	05/13/16	200,000	200,070
US Treasury Note	06/30/16	250,000	253,770
US Treasury Note	06/30/16	250,000	253,770
US Treasury Note	07/15/16	200,000	200,390
Federal Natl Mortgage Assn	09/28/16	200,000	202,042
Federal Natl Mortgage Assn	09/28/16	250,000	252,553
Federal Home LN MTG Corp	10/14/16	500,000	501,865
Federal Home LN MTG Corp	11/01/16	500,000	498,805
US Treasury Note	12/31/16	100,000	100,375
Federal Home LN BK	06/21/17	250,000	250,205
Federal Home LN BK	06/21/17	500,000	500,410
Federal Home LN MTG Corp	06/29/17	500,000	500,985
Federal Home LN BK	09/08/17	200,000	205,852
Federal Home LN BK	09/08/17	200,000	205,852
Federal Home LN MTG Corp	09/29/17	200,000	199,560
Federal Home LN MTG Corp	09/29/17	250,000	249,450
Federal Home LN BK	12/08/17	250,000	256,273
Federal Home LN BK	03/09/18	400,000	400,972
Federal Home LN BK	03/09/18	450,000	451,094
US Treasury Note	03/31/18	200,000	196,922
Federal Natl Mortgage Assn	05/21/18	500,000	491,685
Federal Home LN BK	09/14/18	100,000	102,227
Federal Natl Mortgage Assn	09/18/18	500,000	508,140
Federal Home LN BK	03/08/19	250,000	252,515
Federal Natl Mortgage Assn	06/20/19	500,000	502,465
Federal Natl Mortgage Assn	09/12/19	250,000	250,620

### **NOTE 3 – UNPAID CLAIMS LIABILITY**

As discussed in Note 1, the Trust establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claims adjustments expenses, both allocated and unallocated. The following represents changes in those aggregate liabilities for the Trust during the year ended December 31:

#### **RECONCILIATION OF CLAIMS LIABILITIES**

	<b><u>5 months</u></b> <b><u>12/31/2014</u></b>	<b><u>12 months</u></b> <b><u>7/31/2014</u></b>
Unpaid claims and claim adjustment expenses at beginning of year.	\$ 3,457,379	\$ 3,206,295
Incurred claims and claim adjustment expenses:		
- Provision for insured events of the current year	7,643,849	17,039,396
- Increases in provision for insured events of prior years	<u>-</u>	<u>-</u>
Total incurred claims and claim adjustment expenses	<u>\$ 11,101,228</u>	<u>\$ 20,245,691</u>
Payments for claims and claims adjustment expenses:		
- Attributable to insured events of the current year	(4,512,101)	(13,582,017)
- Attributable to insured events of prior years	<u>(3,457,379)</u>	<u>(3,206,295)</u>
Total Payments	<u>(7,969,480)</u>	<u>(16,788,312)</u>
Total unpaid claims and claim adjustment expenses at the end of the year	3,131,748	3,457,379
Unallocated loss adjustment expense/claims reserve at the end of the year	<u>-</u>	<u>-</u>
Total Claims reserves at the end of the year	<u>\$ 3,131,748</u>	<u>\$ 3,457,379</u>

At Dec 31, 2014, \$3,131,748 of unpaid claims and claim adjustment expenses are presented as the excess of total incurred claims and claim adjustments over total payments.

### **NOTE 4 – RISK FINANCING LIMITS**

The following table reflects the risk financing limits on coverage policies issued and retained by the Trust at December 31, 2014:

Type of Coverage	Deductible	Self-Insured Retention	Excess Limits
Fiduciary Liability	-0-	-0-	\$1,000,000 each loss \$1,000,000 each policy period
Commercial Crime	\$5,000	-0-	\$1,000,000 each loss

## **NOTE 5 – MEMBERS’ SUPPLEMENTAL ASSESSMENTS AND CREDITS**

The Trust interlocal governmental agreement does not provide for supplemental assessments and credits to members.

## **NOTE 6 – SOLVENCY**

Washington Administrative code 200-110-040 requires all joint health and welfare programs self-insuring medical, vision, dental or prescription drug benefit programs or any combination of programs to establish program reserves in an amount not less than eight weeks of program expenses for each program offered. In addition maintain an aggregate stop-loss insurance policy with an attachment point set at or below one hundred twenty-five percent of annual expected claim costs (refer to Note 1.J); and establish by ordinance or resolution of the governing body, an additional contingency reserve for a joint program in the amount equal to at least eight weeks of program expenses.

<b>Eight Weeks Claims Test</b>		<b>Additional Contingency Reserve</b>	
<u>Program Expenses</u>		<u>Program Expenses</u>	
Medical Claims Paid	\$ 7,015,809	Medical Claims Paid	\$ 7,015,809
Dental Claims Paid	628,040		
Other Operating Expenses	<u>715,490</u>	Other Related Operating Expenses	<u>433,776</u>
TOTAL	8,359,339	TOTAL	7,449,585
 <u>Minimum Program Reserves</u>		 <u>Minimum Program Reserves</u>	
Total Program Expenses	8,359,339	Total Program Expenses	7,449,585
Divided by 22 **	379,970	Divided by 22 **	338,618
Multiplied by 8	\$ 3,039,760	Multiplied by 8	\$ 2,708,940
 <u>Actual Program Reserves</u>		 <u>Reserves after meeting 8 weeks test</u>	
Net Position	\$ 8,489,032	Net position - 8 weeks of claims	\$ 5,449,272
 <b>Eight Weeks Claims Test</b>	 <b>Met</b>	 <b>Additional Contingency Reserve</b>	 <b>Met</b>

\*\* For this short year of 5 months, 22 weeks is being used versus the twelve month period of 52 weeks



**CENTRAL WASHINGTON PUBLIC UTILITIES  
UNIFIED INSURANCE PROGRAM TRUST**

**REQUIRED SUPPLEMENTAL INFORMATION**

August 1, 2014 through December 31, 2014

This required supplementary information is an integral part of the accompanying financial statements.

**Reconciliation of Claims Liabilities by Type of Contract**

The schedule below presents the changes in the claims liabilities for the five months ended December 31, 2014 and the twelve months ended July 31, 2014 for the Trust's two types of contracts: medical and dental health care benefits.

	<b>Medical</b>		<b>Dental</b>	
	<b>5 months</b>	<b>12 months</b>	<b>5 months</b>	<b>12 months</b>
	<b>12/31/2014</b>	<b>7/31/2014</b>	<b>12/31/2014</b>	<b>7/31/2014</b>
Unpaid claims and claim adjustment expenses at beginning of year.	\$ 2,990,389	\$ 2,886,295	\$ 466,990	\$ 320,000
Incurred claims and claim adjustment expenses:				
- Provision for insured events of the current year	7,015,809	15,454,273	628,040	1,585,123
- Increases in provision for insured events of prior years	-	-	-	-
Total incurred claims and claim adjustment expenses	10,006,198	18,340,568	1,095,030	1,905,123
Payments for claims and claims adjustment expenses:				
- Attributable to insured events of the current year	(4,204,061)	(12,463,884)	(308,040)	(1,118,133)
- Attributable to insured events of prior years	(2,990,389)	(2,886,295)	(466,990)	(320,000)
Total Payments	(7,194,450)	(15,350,179)	(775,030)	(1,438,133)
Total unpaid claims and claim adjustment expenses at the end of the year	<u>\$ 2,811,748</u>	<u>\$ 2,990,389</u>	<u>\$ 320,000</u>	<u>\$ 466,990</u>

## **Ten-Year Claims Development Information**

The following table illustrates how the Trust's earned revenues (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the Trust as of the end of each of the past ten years. The rows of the table are defined as follows:

1. This line shows the total of each fiscal year's gross earned contribution revenue and investment revenues, contribution revenue ceded to reinsurers, and net earned contribution revenue and reported investment revenue.
2. This line shows each fiscal year's other operating costs of the Trust including overhead and claims expense not allocable to individual claims.
3. This line shows the Trust's gross incurred claims and allocated claim adjustment expenses, claims assumed by reinsurers, and net incurred claims and allocated adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called *policy year*).
4. This section of ten rows shows the cumulative net amounts paid as of the end of successive years for each policy year.
5. This line shows the latest re-estimated amount of claims assumed by reinsurers as of the end of the current year for each accident year.
6. This section shows how each policy year's net incurred claims increased or decreased as of the end of successive years. (The annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims, and emergence of new claims not previously known.)
7. This line compares the latest re-estimated net incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of net claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts commonly is used to evaluate the accuracy of net incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

CENTRAL WASHINGTON PUBLIC UTILITIES UNIFIED INSURANCE PROGRAM TRUST										
	Medical Program – Policy Years* Ended (in Thousands of Dollars)									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	5 Months 12/31/14
1. Required contribution and investment revenue:										
Earned	12,754	13,871	12,854	14,872	15,251	16,646	17,104	17,863	17,920	7,275
Ceded	341	420	471	383	414	428	534	630	659	278
Net earned	12,413	13,451	12,383	14,489	14,837	16,218	16,570	17,233	17,261	6,997
2. Unallocated expenses	142	182	121	135	188	202	179	228	187	269
3. Estimated claims and expenses, end of policy year:										
Earned	11,452	12,503	13,399	12,979	15,627	16,255	16,377	16,202	15,640	7,016
Ceded	214	-	-	-	566	245	-	249	186	-
Net earned	11,238	12,503	13,399	12,979	15,061	16,010	16,377	15,953	15,454	7,016
4. Net paid (cumulative) as										
End of policy year	-	-	-	-	-	(1)	-	(32)	1,118	9,430
One year later	-	-	-	-	(2)	(2)	1	1,414	13,490	
Two years later	-	-	-	(4)	-	2	1,647	13,931		
Three years later	-	-	-	2	-	1,084	14,944			
Four years later	-	(9)	(2)	(5)	1,561	14,152				
Five years later	-	(4)	(21)	1,023	13,785					
Six years later	-	48	872	11,695						
Seven years later	(1)	951	11,789							
Eight years later	851	11,008								
Nine years later	9,845									
5. Reestimated ceded claims and expenses	Information not available. See Note II for further information.									
6. Reestimated net incurred claims and expenses	Information not available. See Note II for further information.									
7. Increase (decrease) in estimated net incurred claims and expenses from end of policy year	Information not available. See Note II for further information.									

\*Policy years prior to 12/31/14 were August 1 - July 31. Beginning August 1, 2014, the policy year was changed to a calendar year ending December 31.

**CENTRAL WASHINGTON PUBLIC UTILITIES  
UNIFIED INSURANCE PROGRAM TRUST**

**LIST OF PARTICIPATING MEMBERS**

Public Utility District (PUD) No. 1 of Benton County  
PUD No. 1 of Douglas County  
PUD No. 1 of Ferry County  
PUD No. 1 of Franklin County  
PUD No. 2 of Grant County  
PUD No. 1 of Okanogan County  
PUD No. 1 of Pend Oreille County

**CENTRAL WASHINGTON PUBLIC UTILITIES  
UNIFIED INSURANCE PROGRAM TRUST**

DES SCHEDULE OF EXPENSES  
For The Five Months Ended December 31, 2014

**INSURANCE MEMBERS:**

Medical Claims Paid	\$ 4,245,809
Medical Claims - IBNR	2,770,000
Dental Claims Paid	308,040
Dental Claims - IBNR	320,000

**CONTRACTED SERVICES:**

Administrative Fees	433,776
Other Insurance Premiums	12,809
Accounting	9,000
Actuarial	52,083
Audit	8,865

**GENERAL ADMINISTRATIVE EXPENSES:**

Bank Fees	8,716
Insurance-Bond, Liability, Assessment, Claims Audit, ACA Fees	190,241
<b>TOTAL OPERATING EXPENSES</b>	<b><u>\$ 8,359,339</u></b>

## ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

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